

Message Text

PAGE 01 NATO 05427 062112Z

70

ACTION EUR-12

INFO OCT-01 ISO-00 COME-00 EB-07 CIAE-00 PM-04 INR-07 L-03

ACDA-05 NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06

TRSE-00 SAJ-01 DODE-00 NSC-05 OMB-01 /071 W

----- 010599

R 061534Z OCT 75

FM USMISSION NATO

TO SECSTATE WASHDC 3876

LIMITED OFFICIAL USE USNATO 5427

DEPARTMENT PASS DOD/ISA FOR MR. WILLIAM GEORGE

E.O. 11652: N/A

TAGS: ECON, MIL, NATO

SUBJ: ECONADS: EFFECTS OF INFLATION ON DEFENSE EXPENDITURES OF
NATO MEMBER COUNTRIES - REINFORCED MEETING OF 2 OCT 75

REF: (A) AC/127-A/479, 30 SEPT. '75; (B) ED/EC/75/42, 30 MAY '75

SUMMARY: NATO ECONOMIC COMMITTEE (REINFORCED BY EXPERTS
FROM CAPITALS) REVIEWED THE CONTRIBUTIONS RECEIVED FROM NATO MEMBER
COUNTRIES IN PREPARATION FOR THE 2 OCT 75 MEETING. THESE CONTRI-
BUTIONS PROVIDED DATA ON COUNTRY DEFENSE EXPENDITURES IN CONSTANT
PRICE FOR THE YEAR 1968-74 WHERE POSSIBLE AS AGREED AT THE 15-16
MAY, 75 MEEING. AT THE CLOSE OF DISCUSSION ON 2 OCTOBER 1975
IT WAS CLEAR THAT MEMBER COUNTRIES HAD USED SOMEWHAT DIFFERENT
DEFLATORS AND PROCEDURES IN CONVERTING TO CONSTANT PRICE
ANDTHAT A NUMBER OF ISSUES OF COVERAGE AND METHODOLOGY REMAINED
UNRESOLVED. IT WAS AGREED THAT THE CHAIRMAN WOULD PREPARE A REPORT
FOR THE NATO ECONOMIC COMMITTEE ON THE CURRENT STATUS OF WORK ON
DEVELOPING A BETTER MEASURE OF DEFENSE EXPENDITURES IN REAL TERMS.
THIS REPORT WOULD PROVIDE THE BASIS FOR FURTHER WORK AND ASSIST
THE NATO ECONOMIC COMMITTEE IN DECIDING WHETHER ALL OR PART OF
THE CURRENT RESULTS MIGHT BE APPROVED FOR CAREFUL USE IN OTHER
NATO FORUMS ON A PROVISIONAL BASIS WHILE CONTINUING THE EFFORT
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 02 NATO 05427 062112Z

TO IMPORVE THE METHODOLOGY. END SUMMARY.

1. THE NATO ECONOMIC COMMITTEE MET 2 OCTOBER 1975
(REF A) TO REVIEW THE CONTRBUTIONS RECEIVED FROM NATO MEMBER

COUNTRIES AND TO IDENTIFY AND DISCUSS ISSUES OF COVERAGE, DEFINITION AND METHODOLOGY. THE OVERALL OBJECTIVE WAS TO CONTINUE THE EFFORT TO ESTABLISH A CONSISTENT METHODOLOGICAL FRAMEWORK FROM WHICH CONSTANT PRICE DATA CAN BE CONSTRUCTED TO MEASURE IN REALTERMS THE MILITARY EXPENDITURES OF NATO MEMBER COUNTRIES. THE MEMBERS OF THE ECONOMIC COMMITTEE AGAIN WERE SUPPORTED BY ECONOMIC AND BUDGETARY EXPERTS FROM EACH COUNTRY. MR. PAPENDORP, USECONAD, WAS SUPPORTED BY MR. WILLIAM GEORGE, DOD (ISA) INTERNATIONAL ECONOMIC AFFAIRS, AND MR. CHARLES WAITE, DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS.

2. THERE HAVE BEEN THREE PREVIOUS REINFORCED MEETINGS OF THE ECONOMIC COMMITTEE ON THIS SUBJECT IN MAY AND SEPT 1974, AND MAY 1975. THE MEETING ON OCT 2 DIRECTED ITS ATTENTION TO DISCUSSING ALL ASPECTS OF THE FIRST DATA TO BE SUBMITTED BASED ON A SIMPLIFIED SYSTEM IN TERMS OF TWO DEFLATORS ONLY FOR DEFENSE EXPENDITURES, I.E., SEPARATE DEFLATORS FOR PERSONNEL AND NON-PERSONNEL EXPENDITURE, AS A FIRST STEP.

3. THE US, UK FRANCE, FRG, NETHERLANDS, CANADA, AND ITALY MADE EXTENSIVE INPUTS OF DATA SUBSTANTIALLY IN THE FORMATS REQUESTED. IN ADDITION, ALMOST ALL COUNTRIES PARTICIPATED IN THE DISCUSSION OF SPECIFIC RESULTS. HOWEVER, IT WAS DETERMINED THAT IN MANY CASES INDIVIDUAL COUNTRIES HAS USED DIFFERENT KINDS OF NUMBERS OF DEFLATORS, OR DIFFERENT DEFINITIONS OR METHODOLOGIES FROM OTHER COUNTRIES. THIS WAS NOT UNEXPECTED EVEN WITH A TWO DEFLATOR SYSTEM AND IS PRECISELY THE REASON A TWO DEFLATOR APPROACH WAS ELECTED AS A FIRST STEP.

4. FOR EXAMPLE, SOME COUNTRIES USED MORE THAN ONE DEFLATOR FOR PERSONNEL EXPENDITURES, WHILE THE U.S. APPLIED ONLY ONE AS AGREED. THE U.S. REP NOTED THAT THE PURPOSE OF APPLYING A SINGLE DEFLATOR TO PERSONNEL EXPENDITURES IS TO ESTABLISH A CONTROL TOTAL AGAINST WHICH IT WILL THEN BECOME POSSIBLE TO MEASURE ANY DIFFERENCE THAT ARISES FROM THE USE OF MORE THAN ONE DEFLATOR. INDEED, BOTH APPROACHES ARE USEFUL AND LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 NATO 05427 062112Z

SHOULD BE FURTHER EXAMINED. HOWEVER, AS A FIRST STEP, IT SHOULD BE EASIER TO AGREE ON THE CONSISTENT USE OF A SINGLE DEFLATOR FOR ALL NATO COUNTRIES. THE SECOND STEP COULD THEN BE TAKEN AS WELL.

5. SIMILARLY, SOME COUNTRIES WOULD INCLUDE MILITARY PENSIONS IN THE CALCULATION, SOME WOULD NOT. SOME COUNTRIES WOULD APPLY THE DEFLATORS USING A FIXED BASE YEAR WEIGHT BETWEEN PERSONNEL AND NON-PERSONNEL EXPENDITURES, WHILE OTHERS WOULD APPLY CURRENT YEAR WEIGHTS. SOME COUNTRIES WOULD INCLUDE OR EXCLUDE, OR OTHERWISE TREAT DIFFERENTLY, CERTAIN OTHER MEASURES.

6. NEAR THE END OF THE MEETING THE U.S. REPRESENTATIVE PROPOSED THAT, WHERE MAJOR DIFFERENCES IN VIEW EXISTED THAT WILL BE DIFFICULT TO RESOLVE. A SEPARATE CALCULATION SHOULD BE PREPARED FOR EACH OF THE MAJOR ALTERNATIVES. FOR EXAMPLE, SEPARATE CALCULATION WOULD BE MADE FOR EACH COUNTRY WITH MILITARY PERSONNEL PENSIONS INCLUDED AND EXCLUDED, USING BOTH FIXED AND CURRENT YEAR BASE RATES, AND USING A SIMPLE AS WELL AS MORE THAN ONE DEFLATOR FOR PERSONNEL EXPENDITURES. THE ADDITIONAL SPECIFIC DATA WOULD HELP TO FOCUS THE DISCUSSION OF THE EXPERTS ON THE REAL EFFECTS OF DIFFERENT METHODS, AND REDUCE THE NEED FOR THEORETICAL SPECULATION. THE CONCRETE RESULTS OF DIFFERENT METHODS CAN THEN BE COMPARED DIRECTLY, WITH SPECULATION LIMITED TO ACCOUNTING FOR REAL DIFFERENCES.

7. THE CHAIRMAN OF THE ECONOMIC COMMITTEE PROPOSED TO PROVIDE A REPORT ON THE STATUS OF THE EXPERTS WORKING GROUP EFFORT TO DEVELOP AN IMPROVED MEASURE OF NATO DEFENSE EXPENDITURES IN REAL TERMS TO THE FULL NATO ECONOMIC COMMITTEE AND TO FORWARD THE DATA UNDER DISCUSSION AT THE OCT 2 MEETING FOR POSSIBLE USE IN OTHER NATO FORUMS. THE NATIONAL REPRESENTATIVES HAD NOTED A SUBSTANTIAL AREA OF DIFFERENCES AND INCONSISTENCIES DURING THE DISCUSSION.

8. THE U.S. REP PROPOSED THAT THE STATUS REPORT TO THE FULL ECONOMIC COMMITTEE ALSO INCLUDE THE SEPARATE CALCULATIONS TO BE PREPARED FOR THE MAJOR ALTERNATIVES WHERE CONSISTENCY HAS NOT YET BEEN ACHIEVED. THIS WOULD PROVIDE A BASIS FOR DIRECT COMPARISON OF CONCRETE RESULTS. THIS WOULD AVOID COMMITTING NATO COUNTRIES TO THE USE OF A SINGLE LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 NATO 05427 062112Z

METHOD BEFORE AGREEMENT HAS BEEN ACHIEVED. IT WOULD ALSO ASSIST THE COMMITTEE IN DECIDING WHETHER ALL OR PART OF THE CURRENT RESULTS MIGHT BE APPROVED FOR CAREFUL USE IN OTHER NATO FORUMS ON A PROVISIONAL BASIS WHILE CONTINUING THE EFFORT TO IMPROVE THE METHODOLOGY.

9. AT THE CONCLUSION OF THE MEETING, IT WAS AGREED THAT THE CHAIRMAN WOULD PREPARE A STATUS REPORT FOR THE ECONOMIC COMMITTEE AS DISCUSSED ABOVE. THIS REPORT ALSO WOULD PROPOSE NEXT STEPS TO BE TAKEN BY THE EXPERTS WORKING GROUP TO FULLY DIGEST AND EVALUATE THE NEW MATERIAL BASED ON ALTERNATE DEFINITIONS, IN ORDER TO ACCOUNT FOR DIFFERENCES AND TO ACHIEVE GREATER CONSISTENCY IN THE NEXT STAGE OF WORK.

10. THE PROPOSED STATUS REPORT IS TO BE CIRCULATED TO THE NATIONAL EXPERTS BY ABOUT LATE NOVEMBER 1975 WITH A REQUEST FOR COMMENTS ON MAJOR ISSUES. THE STATUS REPORT IS TO INCLUDE THE NEW DATA BASED ON ALTERNATE METHODOLOGIES; COUNTRIES WILL BE ASKED TO REVIEW THE DATA AND IF NECESSARY SUBMIT REVISIONS. THE COMPLETE SET OF DATA ARE TO BE A PART OF THE COMPLETED STATUS

REPORT AS WELL AS BRIEF COUNTRY COMMENTS WHICH ARE TO BE APPENDED.

11. THE COMPLETE SET OF SPECIFIC DATA AND COMMENTS ARE TO PROVIDE THE BASIS FOR A FURTHER EFFORT TO ACHIEVE A WIDER AREA OF AGREEMENT AND CONSISTENCY DURING EARLY 1976. IT IS ANTICIPATED THAT THE COUNTRY REPRESENTATIVE WILL BE PREPARED TO DISCUSS THEIR VIEWS OF THE CONCRETE RESULTS OF THE ALTERNATE APPROACHES AND TO ENLARGE THE AREA OF AGREEMENT IF IT IS DECIDED TO MEET AGAIN IN ABOUT APRIL 1976. THE DECISION ON NEXT STEPS TO BE TAKEN WILL BE UP TO THE FULL NATO ECONOMIC COMMITTEE AND THE INTERNATIONAL STAFF. STREATOR

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 18 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 06 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NATO05427
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197510101/abbrzmiz.tel
Line Count: 177
Locator: TEXT ON-LINE
Office: n/a
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) AC/127-A/479, 30 SEPT. '75; (B) ED/EC/75/42, 30 MAY '75
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 30 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 APR 2003 by BoyleJA>; APPROVED <24 DEC 2003 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONADS: EFFECTS OF INFLATION ON DEFENSE EXPENDITURES OF NATO MEMBER COUNTRIES - REINFORCED MEETING
OF 2 OCT 75
TAGS: ECON, MIL, NATO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006